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Thrift and Business

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POST-WAR CONDITIONS

FIGURES for the first nine months of 1919 show the smallest number of mercantile and industrial failures for any like period since 1881. A very large volume of trade is being handled at satisfactory rates of profit. The present volume of sales of any given retail or wholesale establishment seems to depend quite largely upon its ability to secure an adequate supply of goods from wholesalers or jobbers and manufacturers respectively. The manufacturer in his turn is limited by his success in obtaining raw materials from an under-supplied market. If one is to judge by the usual indicia such as bank clearings, volume of trade, demand for loanable funds and for labor, we are enjoying a period of great prosperity in spite of the almost universal prediction to the effect that a period of depression would set in immediately after the cessation of hostilities.

In spite of the fact that the most optimistic entrepreneurs expect the usual post-war decline in prices, this decline has not set in to any marked degree, in fact, the prices of many commodities have continued to rise. A heavy demand for every sort of commodity continues and, in some cases, unheard of prices are being asked and obtained. The high price level has compelled constant increases in wages, which seeming additions to his well-being have in many cases resulted in a falling off in the worker's efficiency as a producer and a greater liberality in his scale of expenditures. This latter has been considerably accentuated by

the feeling of "letting down" after the deprivations of the war period. After two years of restricted consumption, either voluntary or imposed by the government, the natural reaction is in the opposite direction.

Notwithstanding the fact that the business outlook continues good, save for labor troubles in certain industries, a period of falling prices, contraction of credit and general economic readjustment is bound to come. It is the purpose of this discussion of thrift and business, therefore, to point out some tendencies which have been developing during this abnormal period and which should be eradicated from our economic life if they are not to prove a decided menace in the period which is likely to follow.

THRIFT IN THE PROCESS OF SAVING

True Saving.—The industrial system, in order to function in a proper manner, should furnish the maximum amount of satisfaction to society. Such a result can be attained only by certain lines of conduct on the part of both consumers and producers. On the consumer's side, a highly efficient productive system—efficient in the sense of achieving the highest amount of satisfaction of wants—cannot be attained unless his consumption is properly ordered. This involves habits of thrift not only with regard to abstaining from spending but with respect to the spending process itself. "Spending makes business good" can be accepted only with the most careful qualifications. Mere abstinence from

spending, of course, is not good for business. The miser who hoards his surplus in a hiding place is making no contribution toward a satisfactory economic order.

On the other hand, the individual who "wastes his substance in riotous living" has done no better. Our present roundabout method of production involves large advances of spendable funds on the part of a thrift practising public. If we are to substitute for simple direct methods of production the far more effective but time consuming process of "making a machine to make a machine to make a machine" to turn out a given consumable commodity, abstinence must be practiced by large numbers of individuals. If they were to spend all of their respective incomes for consumptive goods like shelter, clothing, food and amusements, the provision of capital goods like factories, railroads and mines would be cut off and mankind would have to revert to primitive methods of satisfying its wants. Not only, then, must there be abstinence, but the resulting surplus must be placed at the disposal of business directly or through commonly established media like savings banks and investment companies. If this supply of liquid capital for the replacement of and additions to the stock of capital goods is not forthcoming, the productive mechanism is seriously hampered and the consuming public, in as much as it is deprived of an adequate supply of goods and services, is the real sufferer.

Personal Thrift.—The present period has not been characterized by habits of personal thrift on the part of the American public. Enormous sums invested in government securities of various sorts under the stress of war have been squandered subsequently by their ex-

change for high-priced luxuries or for the more or less worthless securities of speculative enterprises. Savings deposits have increased but not in proportion to the general increase in the prices of the things which form the usual objective of saving. A considerable part of the government's war issues are still in the hands of the banks, having never been absorbed by the investing public. Here, they have aggravated living costs by their use as collateral for advances for loans at the Federal Reserve Banks, the proceeds of which were used for speculation.

Relation of Savings to Business.—If business is to be adequately financed, there must be, therefore, a constantly dependable flow of new capital from the savings of the public. Systematic habits of thrift must be inculcated throughout all classes of the people. The well-to-do class, in spite of its relatively large earnings, is an entirely inadequate source of supply of new capital. The great masses must be depended upon on the strength of the old saying that "many a mickle makes a muckle." It is not the province of this article to make a disquisition upon the direct benefits of or, better, the necessity of "rainy-day" saving. We are here concerned with the relation of the saving process to the conduct of business. The two go hand in hand, however, for the man who invests his surplus earnings in an enterprise whose product makes for the real welfare of the consuming public does much more than add to his yearly income in the way of interest or dividends and creates a permanent principal as a guaranty against an impecunious old age. He is also benefiting himself and his fellows indirectly by contributing a necessary factor to the industrial process which is providing for their well-being.

As was pointed out earlier, not only must there be a properly directed abstinence from spending but there must be a properly directed spending as well. The maximum degree of satisfaction, which is the goal of a properly conceived economic system, cannot be attained without intelligent expenditure. A properly nourished, well-housed and adequately trained citizenry cannot be realized unless expenditures are directed along lines which are capable of achieving this end. The demand for goods and services is the motivating factor in industrial activity. Consequently, where this demand consists largely of luxuries, to that extent the economic process is perverted and to that extent our *summum bonum* cannot be obtained. The thriftless spender, therefore, injures business in two ways: first, by his failure to aid in providing adequate working capital for business activity, and second, by his unwise demands being responsible for the diversion of business activity into lines which will not result in the achievement of a maximum of social satisfaction.

A nation-wide thrift policy both as regards saving and spending would undoubtedly result in great immediate hardship to many businesses which cater to the harmful or at least less justifiable desires of human beings. Processes which involve considerable economic readjustment are always painful and somewhat costly, but society will be incalculably better off in the long run.

THRIFT IN CONDUCT OF BUSINESS

On the side of thrift in the conduct of business itself, quite as much needs to be said. Granted that the individual consumer did his part in devoting a

portion of his income for furthering production, and that his demands were such as to insure the best use of the productive mechanism, still, if this mechanism were not operating on a high plane of economy and efficiency his efforts would to that extent be lost. We have undoubtedly inherited from the war period some industrial and business standards and conditions which are not consistent with the highest thrift in the conduct of an enterprise.

Necessities of war compelled the sacrifice of economy and efficiency to quantity and speed. Cantonments, ship yards, ships, munition plants, warehouses and an endless variety of other structures had to be rushed to completion at the earliest possible date. The farm resources of the country had to be pushed to new limits if we were to feed our own people and have an adequate surplus to send to our allies. The output of mines and forests had to be increased to the highest possible point in order that the various agencies concerned in winning the war should not be hampered by a lack of materials. Resort was had to methods which ordinarily would be condemned as wickedly extravagant in order to speed up the production of food and raw material and the completion of necessary construction work and manufactured articles.

It is estimated that in one way or another we succeeded in increasing the output of our industries by at least a fourth over that period preceding the war. But this result was achieved at a great sacrifice in money and standards of business efficiency. Prices of essential commodities like wheat, iron and copper were fixed at so high a price that the maximum supply would be forthcoming. As a result a large

number of establishments which were formerly conceded to be submarginal because of their prohibitive operating costs were enabled to operate and add their contribution to that of their more fortunate rivals. Although the war has been over for a whole year and the justification for uneconomical methods no longer exists we are still far short of our pre-war standards of economy and efficiency so far as the conduct of our business activities is concerned.

With the signing of the armistice and the withdrawal of artificial stimuli, the unprecedented volume of production began to fall off. For the time being the decline has been checked by the fact that the advent of peace has been attended by a period of unnatural prosperity due to the vicious circle in which high prices are followed by higher wages which in turn result in higher costs of production and a larger demand for goods, which in their turn result in still higher prices, and so on until a crisis is reached. The crest has not yet been attained but it is quite universally agreed that it is close at hand.

When the reaction sets in it is bound to be attended by a curtailment of production and industrial disorders much more serious than is usually the case, unless our productive efficiency is enhanced. The wasteful business methods justified by the haste and size of war preparations must now be eliminated. They have left behind them in the case of both employers and employees a certain highly undesirable influence. The sort of "easy money" atmosphere which has pervaded all lines of business and resulted in excessive profits in the case of one group and unheard of rates of wages in the other is proving to be detrimental to the maintenance of high standards in industry

and commerce. Its existence is bound to make the suffering in the period of readjustment much more acute. Furthermore, the high standard of living which American workmen have been able to maintain during the war in spite of high living costs will be seriously impaired by a decided decline in production and a consequent sharp reduction in wages, or worse, by actual unemployment.

The world is being stirred at present, as never before, by serious economic and social unrest. When prices go down, industrial activity is severely curtailed and labor's standard of living impaired, we may expect to see the present unrest turn into an irresistible demand for the overthrow of the present economic order, unless the loss in productivity of labor can be successfully offset. If the present prevailing methods of wage payment do not stimulate in the worker an interest in his job and, therefore, do not result in the maximum of product consistent with good workmanship and a proper regard for his well being, methods will have to be devised to secure this result. No economic system can survive if the tens of millions of individuals who are chiefly responsible for its functioning are mere "servants of the fee."

On his side, the entrepreneur can do much to increase the efficiency and, therefore, the productivity of his business. During these days of lavish spending and high-speed production he has reaped large profits in spite of a pretty general neglect of certain "loose ends." It is comparatively easy to make money in a régime of rapidly rising prices. Farmers, merchants and manufacturers whose methods are notoriously unbusinesslike will have what normally would be a deficit offset by

unexpectedly large receipts due to higher prices.

Inadequate financing of enterprises, unwisely directed purchases of equipment, raw material, or merchandise, wasteful marketing methods, and inefficient direction of the labor force are a burden upon the consumer and unless artificially bolstered by rising prices sooner or later come to an untimely end. The gospel of better business methods,

ought to be preached as we near the end of such a period as the present. Business can endure the burden of carrying along the inefficient enterprise when times are prosperous, but this is a load which the consuming public ought not to bear. Inefficiency ought to be eliminated by means more lasting and less cruel than the collapse of the unfit establishment in times of financial stress.